

CAPITAL PLANNING ADVISORY BOARD

Minutes of the 1st Meeting of the 2008 Calendar Year

July 8, 2008

The 1st meeting of 2008 for the Capital Planning Advisory Board (CPAB) was held on Tuesday, July 8, 2008, at 10:00 AM, in the Ballroom, University Center at Northern Kentucky University. Senator Jack Westwood, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jack Westwood, Co-Chair; Representative Larry Belcher, Co-Chair; Senator David E. Boswell; David Buchta; John Hicks; Bill Hintze; Mary Lassiter; Edmund Sauer; Doug Teague; and Garlan Vanhook.

Guests: Dr. James C. Votruba, President, Northern Kentucky University; Dr. Randy Dunn, President, Tom Denton, Vice President for Finance and Administrative Services, and Josh Jacobs, Special Projects Coordinator, Murray State University; Dr. Zebulun Davenport, Vice President for Student Affairs, and Peter Trentacoste, Director of University Housing, Northern Kentucky University; Bob Wiseman, Vice President for Facilities Management, and Ben Crutcher, Associate Vice President for Auxiliary Services, University of Kentucky; Larry Owsley, Vice President for Business Affairs, and Shannon Staten, Director of Residence Administration, University of Louisville; Steve Pendry, Campbell County Judge Executive; Fred Mackey, Chair, Campbell County Progress Authority; and Steve Stephens, Northern Kentucky Chamber of Commerce.

LRC Staff: Pat Ingram, Don Mullis, Nancy Osborne, Shawn Bowen, Kristi Culpepper, and Jennifer Luttrell.

Senator Westwood welcomed everyone to the Capital Planning Advisory Board meeting, and introduced area legislators in attendance: Senate President Pro Tem Katie Stine; and Representatives Sal Santoro, Adam Koenig, and Addia Wuchner.

At Senator Westwood's invitation, Senator Stine welcomed everyone to Northern Kentucky University and her district. She apologized for the construction. She pointed out that an investment in Northern Kentucky is an investment in the rest of the state. She thanked everyone for their support.

Senator Westwood also recognized Campbell County Judge Executive Steve Pendry.

Senator Westwood then welcomed the new members to the Board. Representative Larry Belcher was named to the Board as co-chair by Speaker of the House Richards. He is a retired educator and represents a portion of Bullitt County. Representative Belcher said he is looking forward to working with this committee and thanked the leadership for giving him the opportunity to do so. He added that he has an interest in buildings because he was the Building and Grounds Coordinator for Bullitt County Schools for three years. Senator Westwood then expressed his appreciation for Representative Reginald Meeks' service as co-chair during the last capital planning process.

Senator Westwood next introduced the three new members of the Board who were appointed by the Governor: David Buchta, Director of the Division of Historic Properties, Finance and Administration Cabinet; Mary Lassiter, State Budget Director; and Edmund Sauer, Deputy General Counsel in the Office of the Governor.

Senator Westwood said approval of the minutes of the October 22, 2007; meeting would be deferred to the next meeting.

After giving a brief history of the Capital Planning Advisory Board, Senator Westwood introduced Northern Kentucky University President Jim Votruba, and thanked him and his staff for their hospitality.

President Votruba thanked the members of the committee for coming and welcomed members of the Northern Kentucky Legislative Caucus. He then gave a brief history of Northern Kentucky University as well as a brief overview of the current construction projects underway at the university. Senator Westwood thanked Dr. Votruba for his comments and encouraged everyone to participate in the tour of the campus after the meeting.

Senator Westwood then introduced and welcomed the new staff members: Don Mullis, Committee Analyst, and Jennifer Luttrell, Committee Assistant.

Senator Westwood asked Committee Staff Administrator Pat Ingram to review the Information Items in the members' folders. Ms. Ingram said that the first item reported on three pieces of legislation in the 2008 General Assembly that were based on recommendations of the Capital Planning Advisory Board. Senate Bill (SB) 189, sponsored by Senator Westwood, passed both chambers and was signed by the Governor. It directs the Finance and Administration Cabinet and the Office of State Budget Director to prepare a report and recommendations addressing the establishment and implementation of a process for funding deferred and future major capital renewal maintenance and renovation needs of facilities operated by state agencies. It further directs that a similar report be done by the Council on Postsecondary Education and the Office of State Budget Director relating to facilities operated by the state's postsecondary

education institutions. Both reports are to be submitted to the Legislative Research Commission by December 1, 2008. House Bill 634 contained the same provisions as SB 189. House Concurrent Resolution 164 would have directed the establishment of a task force to study Kentucky's debt policies and practices; it was assigned to the House Appropriations and Revenue Committee, but received no further action.

The second information item reported on enacted legislation which relates to capital projects and capital planning. Ms. Ingram specifically referenced House Bill 2 which addresses energy efficiency and requires the establishment of high performance building standards for buildings constructed or leased by the state.

The last information item concerned capital project authorizations in the 2008-2010 budget. Projects totaling about \$14 million are authorized to be financed from cash in the form of either capital construction investment income or capital construction surplus funds and about \$675 million are to be financed from state bonds. Ms. Ingram noted that the Board has consistently recommended adequate funding for the maintenance pools for state agency facilities. The 2008-10 budget provides about \$28 million for the agency maintenance pools from a combination of cash and bonds. Relative to the Budget Reserve Trust Fund, Ms. Ingram said the Board has consistently recommended that it be funded at the statutory goal of 5% of General Fund revenues. The 2008-10 budget appropriates approximately \$191 million from the Budget Reserve Trust Fund leaving a balance of about \$24 million. As compared to the 5% statutory goal, this ending balance represents 0.26% of anticipated 2009-10 General Fund revenue receipts. Attachments to the Information Item included a listing of projects authorized from state debt, state cash, or agency bonds, as well as a report on the status of each project recommended by the Board relative to the enacted 2008-2010 budget.

In response to Senator Boswell's questions about SB 127, which removed the Henry Clay Law Office in Lexington from the list of state-owned historic properties, Mr. Buchta said the Division of Historic Properties initiated the legislation because the property had been sold back to First Presbyterian Church in Lexington in 1992. The state had found it difficult to maintain and use because of its small size. There is a first right of refusal to the Commonwealth if it is resold. Mr. Hintze added that the building is located next to the church. Senator Boswell said the office is a significant part of this state's history and he hopes the church will preserve and take care of the property.

As requested by Senator Westwood, Ms. Ingram reviewed the next agenda item, which provided a brief overview of capital planning and set out the general schedule for the next capital planning process. She said KRS Chapter 7A specifies that the agencies of all three branches of state government are to submit information about their capital needs in the coming six years to the Capital Planning Advisory Board by April 15 of each odd-numbered year. The Board then develops a statewide capital improvements plan based on those submissions by November 1 of each odd-numbered year. The next agency plans

will be submitted and the next statewide plan will be prepared in 2009. In general, any project that will later be submitted in an agency capital budget request for authorization by the General Assembly is to be submitted in the agency's capital plan. Pursuant to Chapter 7A, the agency plans are to be submitted in the form prescribed by CPAB, so later this year, staff will present a set of draft instructions and forms for the Board's approval.

Moving to the next agenda item, Senator Westwood stated that in the recent six-year capital plans submitted by the universities, there have been a lot of needs and proposed projects related to student housing. These needs fall under several categories - maintenance and upgrade needs of existing facilities built in the 1960s and 1970s, needs related to changing student expectations for housing styles and amenities, and needs based on the higher student enrollments that will be required to achieve the state's goals of increasing the number of bachelor's degrees awarded. He said today four institutions would make presentations on their specific needs and some of the approaches they are taking or proposing to take to address those needs. He then asked Ms. Ingram to review the related materials included in the meeting folders.

Ms. Ingram explained that the first two pages of the agenda item provide an overview of the needs and approaches being taken nationally to address student housing issues, pages 3 and 4 focus on the Kentucky institutions generally, and pages 5 through 22 present institution-specific information about student housing including recently completed projects, projects now underway, projects authorized in the 2008-10 budget, other student housing projects listed in the institution's most recent capital plan, and details about the institution's residence halls and any other student housing that is available. The last page of the materials describes each institution's policy relative to requiring students to live on campus.

Murray State University's (MuSU) student housing presentation was made by President Randy Dunn, Vice President for Finance and Administration Tom Denton, and Special Projects Coordinator Josh Jacobs. A copy of MuSU's slide presentation was distributed to CPAB members.

Dr. Dunn said housing is critical to recruitment of students to the MuSU campus. The university's goal is to have 12,000 students enrolled by 2012. MuSU's approach is that - rather than dormitories - students are housed in residential colleges so they have a connection to the campus by being a part of a learning community.

According to President Dunn, there are two sections of the MuSU campus - an academic section and a residential section - which are connected by a bridge across a city street. Student housing includes various low-rise buildings, five high-rises, and the College Courts Apartments. The university plans to replace the low-rise housing with new buildings that would be financed from agency bonds. As such, the new Clark

College facility came on line this year and, site work is now being done for the new Richmond College. Relative to the five high rise buildings - Regents College, White College, Elizabeth College, Hart College, and Hester College – the plan to gut the facilities and replace electrical and HVAC, as well as finishes and fixtures has an estimated cost of about \$50 million. Finally, a public/private partnership is being proposed in order to replace the graduate/married student housing (College Courts).

As explained by Mr. Jacobs, there are 144 units in College Courts that provide 192 beds. The 2008-10 budget provided authorization for a \$17.9 million project. Currently, MuSU is in the process of drafting a Request for Proposals to completely redevelop this 9.5 acre area into the apartment-style and suite-style units that students are demanding. This is viewed as a recruitment tool as well as a retention tool, and is the university's first attempt at a public/private partnership.

In conclusion, President Dunn said various funding methods, such as agency bonds and public/private partnerships, are being looked at to increase the quality of residential life on the MuSU campus.

In response to a question from Mr. Hicks, Mr. Denton replied that MuSU has been very conservative in its approach to construction and financing up to this point. The university is constructing traditional buildings that last a lot longer than those constructed using nontraditional approaches. He said the downside of the traditional approach is that it is more expensive resulting in higher costs to students. The university believes that the nontraditional approach will provide a more reasonable pricing structure for the student, as well the amenities that students want. Additionally, the liability will be on the third-party developer. President Dunn also noted that the university is trying to work around a very restrictive housing and dining trust indenture from the 1960s used to finance the current facilities.

The student housing presentation for Northern Kentucky University (NKU) was made by Dr. Zebulun Davenport, Vice President of Student Affairs, and Peter Trentacoste, Director of University Housing. A copy of the presentation was distributed to CPAB members.

Dr. Davenport said currently NKU has the capacity to house about 1,390 students, which is approximately nine percent of the undergraduate student body. The demand for housing has been increasing over the years, and the university is unable to house the number of students who would like to live on the campus. With the addition of Callahan Hall, there will be a total of six facilities that can house 1,850 students.

Noting that there are six housing options, Mr. Trentacoste said the traditional facilities are less popular than the newer facilities. The first apartment complexes were constructed in 1992, and in 2003 a facility with suite-style options became available. He

said suite-style housing seems to be where most universities are heading, and at NKU student demand far exceeds the suites that are available.

Mr. Trentacoste said the university's new facility, Callahan Hall, which will house a total of 460 students, has 2-, 3-, and 4-person rooms with private baths. It is located next to an assisted-living facility, and the students are very excited about being able to do community service there. Callahan Hall will also have some academic theme floors and some faculty residents. In conjunction with NKU's nationally-recognized entrepreneurship program, there will be a business incubator in front of the building, which should generate some national attention for NKU and the state.

Relative to NKU's housing capacity; Mr. Trentacoste said there were 400 beds when the campus opened in 1982 and by 2005, there was a negative availability of space. All the students above the supply of 1,394 were told they had to seek other options. Many of these students chose another university. In 2006 and 2007 the space deficit was around 200. For 2008, the housing demand is expected to be 1,776 compared to a supply of 1,850 beds.

Mr. Trentacoste next reviewed the methods that NKU is using to ensure the available housing space is being utilized. Confirmation forms and phone calls during the summer are used to minimize "no shows." There are temporary roommate assignments to Resident Assistants for the first two weeks of school. The university has a contract with Country Inn Suites in Wilder, KY, for 50 beds if needed to get through the first two weeks of school. In the past, NKU has bought out contracts of local students to offer the space to commuting students. The least preferred options are to hold an apartment fair for local off-campus properties and tripling the occupancy of rooms intended for double occupancy.

Dr. Davenport stated that by the year 2020, the undergraduate campus population is expected to rise to 22,520. Based on that number, the total housing capacity required will be approximately 4,506 beds. Under the charge of President Votruba, a Housing Development team was formed in May 2008 and a consultant will be contracted to conduct a market study to determine the most appropriate development pace and style of housing to meet the needs of NKU's growing student body. A final report is due to Dr. Votruba by December 2008.

The University of Kentucky's (UK) student housing presentation was made by Bob Wiseman, Vice President for Facilities, and Ben Crutcher, Associate Vice President of Auxiliary Services and Housing. (A copy of materials relating to the UK presentation was forwarded to CPAB members following the meeting.)

Mr. Wiseman stated that UK considers housing to be a key issue in recruitment and retention and is a key component to student success, particularly in the freshmen

year. Approximately 5,000 students reside on campus in undergraduate housing. UK has a very aged building stock with the exception of four new halls built in 2005. For those 680 new beds, UK receives about 5,000 applications. Mr. Wiseman noted that students have grown up with air conditioning and their own bedrooms; they are not prepared for halls without air conditioning and to share bathrooms and bedrooms with people they do not know.

Mr. Crutcher described the housing options at UK and noted that the high-rise Kirwan-Blanding complex constructed in the mid 1960s was the newest undergraduate housing until four new facilities were built in 2005.

Mr. Crutcher then listed some of the assumptions being used by UK in its current effort to plan for student housing. He said student fees need to stay affordable, rates will be charged as “Premium Housing” once a building is renovated, and a 1,509 increase in beds is needed to accommodate the expected growth of 6,500 undergraduate students pursuant to the University’s Top 20 Business Plan.

Relative to the location of new residence halls, Mr. Crutcher said there is demand for north campus housing in order for students to be within walking distance of the academic core. Another area of focus would be the Kirwan-Blanding tower/complex area, which is near the UK Library. In this area are three of the four newest residence halls, as well as the Cooperstown Apartments, which house graduate students.

Mr. Crutcher said UK’s aging apartment stock is of concern because a majority of UK’s resident advisors and teaching assistants are graduate students who are international. They have limited income potential and bring their families. To achieve top 20 status, he said UK needs to bring in 750 professional, graduate, and postdoctoral students and give them a place to live. Mr. Crutcher added that graduate students with families want two bedroom apartments, rather than efficiency apartments.

According to Mr. Crutcher, UK wants to do the renovations of the Kirwan-Blanding Complex and Keeneland Hall through \$220 million of new state-authorized debt. Changing the complex from traditional double-occupancy rooms to single rooms will reduce the occupancy from 2,800 to 1,500; the communal bath areas will remain, but more privacy will be created. New construction to address growth related to UK’s goal of attaining Top 20 status will be handled through private/public partnerships. It will take approximately \$113 million to construct another 1,500 beds. Additionally, the university will tear down and rebuild about 75 percent of the current inventory. Removing 1,928 beds and constructing 3,400 new beds through private financing has an estimated cost of \$255 million.

Mr. Wiseman noted that the \$500 million cost is what UK had to put on a twenty-year financial plan to ensure that affordability is maintained. The other important issue

that is driving the university to use privatization is the \$500 million worth of needs and the state limitations of bonding capacity.

Mr. Crutcher added that housing projects also compete with other projects within the university, as well as with the demands for funding for instruction. He said the university also has to consider the privately constructed apartment complexes on the perimeter of the campus. The university wants to keep the students on campus, but they are also competing with the private market in Lexington. Mr. Crutcher said UK does not want to build 80- to 100-year construction that becomes obsolete in 20 years; rather the intent is to meet the need for amenities and provide an affordable alternative that is competitive with the local market.

In response to a question from Mr. Sauer about whether other major institutions have the same housing issues as UK (e.g., lack of air conditioning, shared bathrooms), Mr. Wiseman said UK fares poorly in comparison to other institutions, but that most have similar issues and are looking at similar options of privatization and land leases.

In responding to a question from Mr. Hicks about privatized financing, Mr. Wiseman said while it is 1 percent or 2 percent more expensive (1 percent = \$23 per student per year), that was not a major factor. He reiterated that using privatized financing will allow the university to proceed with a 20-year plan, to compete for state debt on its good buildings, and move more aggressively forward. He added that UK recently eliminated the very restrictive 1965 trust indenture and folded that debt in with university general receipts debt which has allowed for some flexibility for the first time.

The final student housing presentation was made by representatives of the University of Louisville (UL): Larry Owsley, Vice President for Business Affairs, and Shannon Staten, Director of Residence Administration.

Mr. Owsley said students expect more today than the university has been able to provide in the past. UL was traditionally a commuter campus, but that has changed in recent years. He noted that housing, recreational facilities, retail space, and commercial space are needed near the campus to attract and retain students. However, there is not a lot of land available for expansion given that the campus is surrounded by railroads and a major interstate.

Focusing on the Belknap Campus, Mr. Owsley said in 1999 there were 1,800 beds, today there are 3,300 beds, and by 2014 the university wants to have 4,800 beds on campus. In 2005, the university developed a master plan to renovate the existing housing. When a project to renovate Miller Hall - one of the traditional dorms built in the 1960s - was vetoed in the 2006-08 budget, the university decided to use a different approach. He explained that since 1993, UL housing had been developed by leasing land to a private foundation and developer, but the university was ultimately responsible for the debt. The

new approach involved the university issuing a Request for Proposals in October 2007, which called for developers to acquire non-university-owned land and develop housing around the campus. The developer would have an affiliation agreement for UL to develop student life programs in the housing. After receiving four responses, UL is in process of finalizing an affiliation agreement with the Edwards Companies from Columbus, Ohio, which will develop a 42-acre piece of property adjacent to the campus. They have started construction and by fall 2009 will have completed 850 beds in Phase I. In Phase II, 450 beds will be added. The development will consist of 2- and 3-story apartment complexes with a clubhouse and numerous amenities.

Mr. Owsley said another project is planned on the northeast campus. The old Masterson's block is under option by a developer out of Indiana, who is looking to develop housing, retail, and commercial space - which are needed in a college town. According to Mr. Owsley, as the supply of housing increases, the university will take some of the traditional housing offline and convert the facilities to office or classroom space where there are deficit areas in the physical plant now.

In response to a question from Mr. Hicks about whether the increased housing has resulted in a broader range of students attending UL, Mr. Owsley replied that the new housing had resulted in attracting students from 116 of Kentucky's 120 counties as well as students from various regions and states attending the university.

Senator Westwood next invited comments from local officials in attendance: Fred Mackey, Chair of the Campbell County Economic Progress Authority, and Steve Stephens, President of the Northern Kentucky Chamber of Commerce.

Mr. Mackey reiterated President Votruba's statement that 16 percent of state revenue comes from northern Kentucky and said relative to economic development, the primary asset of Campbell County is Northern Kentucky University. He said NKU is looking for help from this committee on three items - renovation of the old science building, renovation of the health center, and growth of the business college. All three are important assets to NKU's ability to sell businesses on relocating to and expanding in Campbell County.

Mr. Stephens stated that Kentucky gets a tremendous return on its investment in NKU. He said NKU and the community and technical college help meet the demand for individuals to fill jobs in areas of need in the community. He specifically cited the health professionals that will be needed to fill positions at the new medical facility being constructed in Covington due to the merger of St. Elizabeth Hospital and St. Luke Hospital. Mr. Stephens encouraged the Board to keep these kinds of things in mind when prioritizing some of NKU's needs. He said there is nothing on the university's list that is not an essential item.

Senator Westwood stated that he appreciated the comments and the efforts of both Mr. Stephens and Mr. Mackey in growing the economy of northern Kentucky.

Senator Westwood said plans for the next meeting have not been made yet. He will be discussing some dates and agendas with Representative Belcher and asked members to let him know if they had any recommendations in that regard.

There being no further business to come before the Board, the meeting was adjourned at 12:06 PM. Following the meeting and lunch, members were provided an opportunity to tour the Northern Kentucky University campus.